



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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FREQUENTLY ASKED QUESTIONS ABOUT THE FEDERAL BUDGET

Dear Democratic Colleague:

For the past few years, I have been sending every House Democrat a letter entitled "Frequently Asked Questions About the Federal Budget." Because the Congressional Budget Office (CBO) released new budget estimates in January, I am now sending you the latest "Frequently Asked Questions" with updated figures.

Attached is a table summarizing several January 2001 CBO projections: the total budget surpluses, the budget surpluses excluding Social Security, and the budget surpluses excluding Social Security and Medicare.

Since 1993, we have made unprecedented progress in eliminating the record high deficit this nation faced when former President Bush left the White House. As a result of tough choices and strong leadership by Democrats, our country is enjoying the longest economic expansion in history.

1. What is the projected total U.S. budget for FY 2001?

Federal government spending (including Social Security) is projected to be \$1,853 billion. "On budget" spending, which excludes Social Security, is estimated at \$1,506 billion. Net "off budget" spending, primarily Social Security, is projected to be \$348 billion.

Major Categories of Spending - Fiscal Year 2001 Outlays

	<u>Dollar Amount</u>	<u>Percentage of Federal Budget</u>
Discretionary Spending:		
Defense	\$301 billion	16 percent
Non-Defense	\$345 billion	19 percent
Entitlements and other "mandatory" except net interest:		
Social Security benefits	\$405 billion	23 percent
Medicare (net of premiums)	\$214 billion	12 percent
Medicaid	\$130 billion	7 percent
Other (e.g., Civil Service and Military Retirement, SSI, EITC, Veterans' benefits, etc.)	\$291 billion	16 percent
Miscellaneous receipts that offset spending	\$-87 billion	-5 percent
Net Interest	\$205 billion	11 percent

2. How much estimated tax revenue will the federal government collect in FY 2001?

Total federal government revenues (including Social Security) are projected to be \$2,135 billion. On-budget federal revenues, which exclude Social Security, are projected to be \$1,630 billion. Off-budget revenues (i.e., payroll taxes dedicated to Social Security) are projected to be \$504 billion.

3. What is the estimated budget surplus for FY 2001?

The total budget surplus, including Social Security, is projected to be \$281 billion. The on-budget surplus, which excludes Social Security, will be \$125 billion. The off-budget surplus will be \$156 billion due to Social Security's surplus. When the Medicare HI surplus (\$29 billion in 2001) and the Social Security surplus (\$157 billion in 2001) are excluded from the total 2001 budget surplus (\$281 billion), a surplus of \$95 billion remains available for additional debt reduction, tax cuts, or priority investments.

4. Who is responsible for the FY 2001 budget surplus, Democrats or Republicans?

Congressional Democrats and the Clinton-Gore Administration.

According to CBO, the 103rd Congress (the last Democratic Congress) enacted legislation saving \$401 billion over the five-year period 1994-1998, and a considerable amount in later years as well. In contrast, the Republicans took over Congress in 1995 and wrote laws that actually made matters \$36 billion worse in FY 2000.

The 1993 Democratic plan was balanced, doing half of the work through spending reductions and the other half through revenues. Despite the role that tax changes played in achieving a balanced budget, middle-class and working families now pay lower effective federal tax rates than in 1993, pay a smaller share of federal revenues, and enjoy higher real after-tax income. The income tax changes enacted in 1993 affected exclusively the top two percent of households ranked by income. Meanwhile, Republican rhetoric has emphasized tax cuts, but Republican Congresses have increased spending more than they cut taxes.

5. Is it true, as Republicans charge, that the tax burden on working Americans is at record levels?

For the overwhelming majority of Americans, including families in the middle of the income spectrum, federal tax rates have gone down, not up, during the Clinton-Gore administration. The current level of **total** federal taxes relative to **total** income results from rapid income growth for taxpayers at the top, who both pay more taxes and have more after-tax income.

Studies by the Congressional Budget Office (CBO), the Joint Committee on Taxation (JCT), and the Treasury all agree that tax burdens for the vast majority of Americans have fallen. A July 1999 analysis by CBO showed that the effective federal income tax rate for all but the top 20 percent of the income spectrum has fallen since 1993. In fact, income tax burdens for all but the top 20 percent are lower than they were in the early 1980s after the Reagan tax cuts.

Analysis by the JCT tells a similar story. JCT data show that all federal taxes (including payroll taxes) on families with incomes between \$30,000 and \$40,000 declined from 17.3 percent of their incomes in 1995 to 16.1 percent in 1999. Families between \$40,000 and \$50,000 saw their effective tax rate decline from 19.3 percent to 17.5 percent over the same period.

The Treasury's analysis focuses on families of four, who had a median family income of \$54,900 in 1999. These families have seen their average federal income tax rate fall from 10.3 percent in 1984 during the Reagan years to 7.5 percent in 1999, with more than half of that decline occurring since 1993. Even families of four with twice the median income, i.e. \$109,800, saw their tax burden fall between 1993 and 1999.

6. What are the CBO projections for the surplus in FY 2002?

CBO now projects that the fiscal year 2002 total budget surplus will be \$313 billion, and that there will be an on-budget surplus, excluding Social Security, of \$142 billion. When the Medicare HI surplus (\$36 billion in 2002) and the Social Security surplus (\$172 billion in 2002) are excluded from the total 2001 budget surplus (\$281 billion), a surplus of \$106 billion remains available for additional debt reduction, tax cuts, or priority investments.

In this projection, CBO assumes that funding for discretionary appropriations will keep pace with inflation. Over the last few years, both defense and non-defense appropriations have grown faster than inflation.

7. What surpluses does CBO project over the next ten years?

CBO projects surpluses totaling \$5.6 trillion over the next ten years, of which \$2.5 trillion will be from Social Security, about \$400 billion from Medicare, and the remainder, \$2.7 trillion, will be available for paying down the debt, tax cuts or priority investments. See the last page for a year-by-year portrayal.

8. How does the budget account for the Medicare Trust Fund?

Under current law, the Medicare Trust Fund (Part A, or Hospital Insurance) is part of the budget, unlike Social Security, which is by law "off budget." Both parties have argued that the Medicare Part A surplus, like the Social Security surplus, should not be available for tax cuts or new spending. This would further reduce the stated surpluses by excluding both the Social Security and Medicare surpluses.

Projected Surpluses: Three Portrayals (in billions of dollars)

	<u>2001</u>	<u>2002</u>	<u>2002–2011</u>
Total Budget Surpluses	281	313	5,610
Excluding Social Security Trust Fund	125	142	3,122
Excluding Social Security Trust Fund and Medicare Trust Fund	96	106	2,730

9. What is likely to happen to the surplus under continued Republican leadership?

Tax cuts and spending increases proposed by this Republican Congress threaten to dissipate the entire surplus excluding Social Security and Medicare, and also to eat into the Social Security/Medicare surplus that both parties have promised to protect, if economic projections prove optimistic. As in previous years, the Republicans in Congress have succumbed to a tax cut and spending spree. Their actions diminish the reserves we will need to pay down debt, shore up Social Security, and add a meaningful prescription drug benefit to Medicare.

10. What is the estimated total federal debt?

At the end of fiscal year 2001, the customary measure of *debt held by the public* is estimated to be \$3.148 trillion. This year will mark the fourth year in a row that the public debt has fallen. (1998 produced the first reduction since 1969).

At the end of fiscal year 2001, the amount of debt *subject to statutory limit* will be \$5.95 trillion. Statutory debt is higher than debt held by the public primarily because it also includes Treasury securities held by federal government trust funds, most notably the Social Security, Medicare, and federal employee and military retirement trust funds.

11. How large is the estimated Social Security Trust Fund balance?

At the end of fiscal year 2001, the estimated balance in the Old-Age, Survivors and Disability Insurance trust funds will be \$1.164 trillion. CBO estimates that at the end of 2002, the Social Security trust fund balances will be \$1.337 trillion. Note that the accumulated “balance” is not the same as the annual surplus, which is the difference between annual revenues and annual spending. Under current law, Social Security will remain fully solvent until 2037.

12. What is the estimated cost of Medicare?

In fiscal year 2001, federal spending for Medicare benefits will be \$214 billion (net of premium receipts). In 2002, CBO projects that the cost of Medicare benefits will be \$226 billion (net). Under current law, Medicare will remain solvent until 2025.

13. How rapidly have the costs of Medicare been increasing?

In the early 1990s, Medicare spending grew at rates in excess of 10 percent annually. In fiscal year 1999, Medicare spending *declined* by 1.3 percent, the first decline since the inception of the program in 1965. This is thought to be the result of less utilization of services, a stepped up crackdown on fraud and abuse, and the implementation of several payment reductions required by the Balanced Budget Act of 1997 (BBA). In 2001, the growth in Medicare spending is expected to be 8.9 percent. Over the next decade, CBO projects an average annual growth rate of 7.4 percent in net Medicare spending.

For more detailed responses to these questions or for more information about any budget related issues, I hope you will feel free to call me or the Democratic staff of the House Budget Committee.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

Budget Surpluses Projected by CBO, January 2001

Assumes FY 2001 appropriations are adjusted annually for inflation
(E.g. zero real growth of appropriated programs)

CBO January 2001 (Billions of dollars, fiscal years)

	2002	2003	2004	2005	2006	Five-Year Total 2002-2006
Total Budget Surpluses	313	359	397	433	505	2,007
Budget Surpluses excluding Social Security*	142	171	196	212	267	988
Budget Surpluses excluding Social Security and Medicare**	106	132	155	172	223	788

	2007	2008	2009	2010	2011	Ten-Year Total 2002-2011
Total Budget Surpluses	573	635	710	796	889	5,610
Budget Surpluses excluding Social Security*	316	359	417	484	558	3,122
Budget Surpluses excluding Social Security and Medicare**	275	318	378	447	524	2,730

Numbers are rounded to the nearest billion.

* This line excludes the surpluses in the Social Security Trust Fund and the Postal Service Fund, and therefore represents “on-budget” surpluses as currently defined.

** This line also excludes the surpluses in the Medicare Part A (Hospital Insurance) Trust Fund.